



 **Utility Regulator**  
ELECTRICITY GAS WATER

**Annual Report**  
2011-12

## **Our Mission**

**Value and sustainability in energy and water.**

## **Our Vision**

**We will make a difference for consumers by listening, innovating and leading.**

## **Our Values**

**Be a best practice regulator: Transparent, Consistent, Proportional, Accountable and Targeted.**

**Be a united team – One Team One Mission.**

**Be collaborative and co-operative.**

**Be professional.**

**Listen and explain.**

**Make a difference.**

**Act with integrity.**

# Annual Report 2011-12

Combined report of the Northern Ireland Authority for Utility Regulation (the Utility Regulator).

The Utility Regulator has decided to produce a combined energy and water and sewerage report in accordance with Article 5 (5) of the Water and Sewerage Services (Northern Ireland) Order 2006.

Laid before the Northern Ireland Assembly in accordance with Article 5 (1) of the Water and Sewerage Services (Northern Ireland) Order 2006 and Article 6 (5) (a) of the Energy (Northern Ireland) Order 2003 by the Department of Enterprise, Trade and Investment.

Under Article 6A of the Energy (NI) Order 2003 (as amended), the Utility Regulator is obliged to prepare an annual report in relation to the activities it has carried out in the preceding 12 months in its capacity as a designated regulatory authority for Northern Ireland. This report shall include a general survey taken and steps achieved by the Utility Regulator in the performance of its functions under Article 37 of the Electricity Directive 2009/72/EC and Article 41 of the Gas Directive 2009/73/EC. This report is due to be sent to the Department, the European Commission and the Agency (ACER) by the 1 July of each year.

# The Utility Regulator

## Annual Report 2011-12

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## 1. Chairman's Foreword



As I write this foreword for the past year, I am also conscious that this will be my last as Chairman of the board of the Utility Regulator. It is therefore gratifying that many of the achievements of the past year reflect the development of the organisation over the last six years.

When we say our job is to protect the interests of consumers, we mean it. We have engaged directly with consumers to listen to their experiences, and have sought to understand the impact of utility bills on less well-off families. In practice, we have been robust in making sure that any changes to consumer bills are fair and justified. When international wholesale fuel costs impacted on tariffs last year, we were pro-active in addressing these increases in consumer bills. A review of regulated gas prices subsequently led to a decrease in bills. The series of price control decisions announced by us have all focused on reducing consumer bills. We have worked hard to advance the implementation of EU consumer protection directives on energy. When we were asked to investigate major water supply disruption during the winter of 2010-11, we were taking action to protect the interests of consumers.

When I became Chairman in 2006, both retail and wholesale energy markets were under-developed. Since then, the Single Electricity Market (SEM) has gone from strength-to-strength and we will use this as a sound basis for advancing the development

of a regional European energy market. Much work has been undertaken on the harmonisation of the gas network on the island of Ireland and we remain committed to the delivery of that project. In 2006 we had retail energy markets that comprised of one monopoly supplier. Electricity and gas consumers now have a choice of supplier. Some gas consumers in the Ten Towns area will also benefit from the opportunity to choose when that market opens in October 2012.

The development of the wholesale and retail markets since 2006, represent a massive vote of confidence by investors. The SEM has continued to attract new investment in generation. We continue, more broadly, to encourage and support investment. Central to our regulatory price controls is the principle that utility companies will make a fair return on their investment. Our commitment to investment in renewables is ably demonstrated by the various initiatives undertaken by our social and environmental team to support renewable development. The draft Northern Ireland Electricity Transmission and Distribution (NIE T&D) price control determination, which was published just before this report went to print, provided ring-fenced funding for renewable development. We also have been advancing the regulatory processes that will support the extension of the gas network across Northern Ireland. Our first water price control, PC10, approved a £½ billion investment programme over three years.

Protecting consumers, developing markets and supporting investment; these have been consistent and enduring aspects of our work. We continue to be reflective and innovative in our regulation. I have been heartened by the engagement we have had with the range of stakeholders over the last six years. The organisation has been enriched by the perspectives

that have been shared with us. The uniqueness of the organisation as a multi-utility economic regulator has provided us with an opportunity to enhance how we carry out our work. This opportunity is one we have grasped in the last year with the publication of a consultation paper on network price controls.

During the last year, we said goodbye to two long-standing board members, Chris Le Fevre and Etain Doyle. We also bid farewell to Dermot MacCann after many years of distinguished public service.

I would like to thank all those colleagues on the board and the dedicated and talented staff for their support, and their many achievements over the years. I am proud of who we are and to have been part of something that has always protected the interests of Northern Ireland consumers.

Peter Matthews  
Chairman, Utility Regulator

## 2. Chief Executive's Report



Utility regulation should be both predictable and capable of responding to change. I call this predictable flexibility.

2011-12 was characterised by continual change. In electricity and gas we witnessed increases and continued volatility in international fuel prices, combined with enhanced retail

competition, and further steps to integrate with other markets. In water, there were steady improvements in performance by NI Water.

As an independent regulator, our constant objective has been to ensure that both consumers and investors continue to get a fair deal. We have sought to ensure that consumers get a quality service at an efficient price and that investors are reasonably rewarded for providing this service.

We have a rich diversity of skills and experience in our organisation. Given that the same economic and engineering principles apply across all three of the utilities which we regulate, we are continually learning from each other and from other regulators. We have tried to take full advantage of this opportunity to get the best outcome for Northern Ireland.

The best outcome can be achieved for consumers by a combination of monopoly regulation and effective competition. The extent to which the two tools are applied, requires good judgement of the

local circumstances. For example, because Northern Ireland has a relatively small energy retail market with dominant participants, we still apply price regulation. Our gas industry continues to grow and this requires a focus on promoting further development. In water, at least 70% of revenues come from the public purse and this requires us to try to align the rules of economic regulation with the rules of public expenditure.

During 2011-12, our work on monopoly regulation resulted in the implementation of a number of new price controls for the incumbent supply companies in both electricity and gas. Our price control determination for the gas network company in the Greater Belfast and Larne areas, Phoenix Natural Gas Limited (PNGL), was rejected by the company and the matter has since been referred to the Competition Commission (CC) for its re-determination. We have also published our draft determination for the electricity network company, Northern Ireland Electricity Transmission and Distribution (NIE T&D). We also advanced our work on the next water price control which will come into effect from January 2013.

Throughout the year we continued to review and consult on our price control policies on a cross-utility basis. We decided to do this in light of the recent review of energy policy and because of the learning that accrues from being a cross-utility regulator. We also considered what other regulators were doing, including Ofgem's review. This resulted in a new approach to network price controls called Revenues, Incentives, Innovation and Outputs (RIIO). We hope to publish our position on network price controls in the early summer.

2011-12 has also seen significant advances in energy market development. Northern Ireland is challenged by its size and isolation. Consumers will benefit from integration with neighbouring markets. In electricity, we continue to refine the design of the SEM by amending the arrangements to mitigate market power and improve liquidity, and by stabilising the capacity payment mechanism for generators. We are now actively working towards integrating with a regional European market by 2016.

In gas we made further progress towards developing a single arrangement on the island of Ireland for transporting gas whilst at the same time meeting the requirements set out in the EC Directives.

We also witnessed significant development in the competitive retail markets. In gas we implemented changes to allow domestic consumers to switch supplier in the Greater Belfast and Larne areas. Shortly after year-end, an unlimited switching system for electricity consumers was introduced.

Energy retail prices increased due to rising international fuel prices. While this was very unfortunate at a time of economic recession and hardship for consumers, we ensured that consumers only paid what was necessary.

During the year we started implementing EU consumer protection directives (IME3) that will provide greater transparency for consumers on tariffs and terms and conditions, and additional protection for all consumers.

During 2011-12, NI Water went to great lengths to prepare themselves for the worst, following the freeze/thaw experience of the previous year. NI Water also made good progress in improving its overall operating

performance and closing the efficiency gap with its peer group. We have also seen the re-establishment of the Stakeholder Steering Group and pragmatic engagement to deliver the best outcome under the current governance arrangements.

As the year comes to a close, I wish to record my thanks and gratitude to Peter Matthews as he steps down as Chairman of the Utility Regulator board. I know that I have personally learned much from him, and the organisation has benefitted greatly from his leadership. Both I and the organisation wish him well.

Shane Lynch  
Chief Executive, Utility Regulator





### 3. The year in review – at a glance

#### Electricity

- we advanced the NIE T&D price control – and the draft determination was published in April 2012.
- the Power NI Power Procurement Business (PPB) price control proposed efficiencies amounting to 10%.
- two separate reviews were undertaken to enhance the operation of the SEM.
- plans to establish a regional EU energy market were advanced.
- we published initiatives in two separate areas that will enhance security of supply and promote sustainability.

#### Retail and Social

- regulated electricity bills increased by 18.6% in October 2011.
- the Power NI price control identified £20 million of savings which will lead to reduced electricity bills for consumers.
- there were significant increases to switching thresholds for electricity consumers.
- progress on delivering an unlimited consumer switching system went live, as scheduled, in May 2012.
- we advanced the implementation of EU consumer protection directives.

#### Energy Efficiency and Sustainability

- the NI Sustainable Energy Programme (NISEP) invested £6.1 million in projects.
- a record number of accreditations of additional generating stations able to claim Renewables Obligation Certificates (ROCs) were approved by us.
- along with the Department of Enterprise, Trade and Investment (DETI), we informed and assessed the Northern Ireland impact of the Coalition Government's Electricity Market Reform proposals.
- we published fuel mix calculations for all suppliers on the island of Ireland, which will allow consumers to understand and verify the environmental impact of their electricity consumption.

## Gas

- the PNGL price control identified a £74 million adjustment leading to reduced bills for gas consumers and increased investment in new connections.
- the Phoenix Supply Limited (PSL) price control identified £5 million of savings which will lead to reduced bills for gas consumers.
- regulated gas bills increased by 39.1% in April 2011 and then decreased by 8.5% in February 2012.
- there were unprecedented levels of switching between suppliers by certain groups of gas consumers.
- the regulatory processes for the gas to west project were advanced.
- gas storage licence arrangements were finalised and the first storage licence application was received.

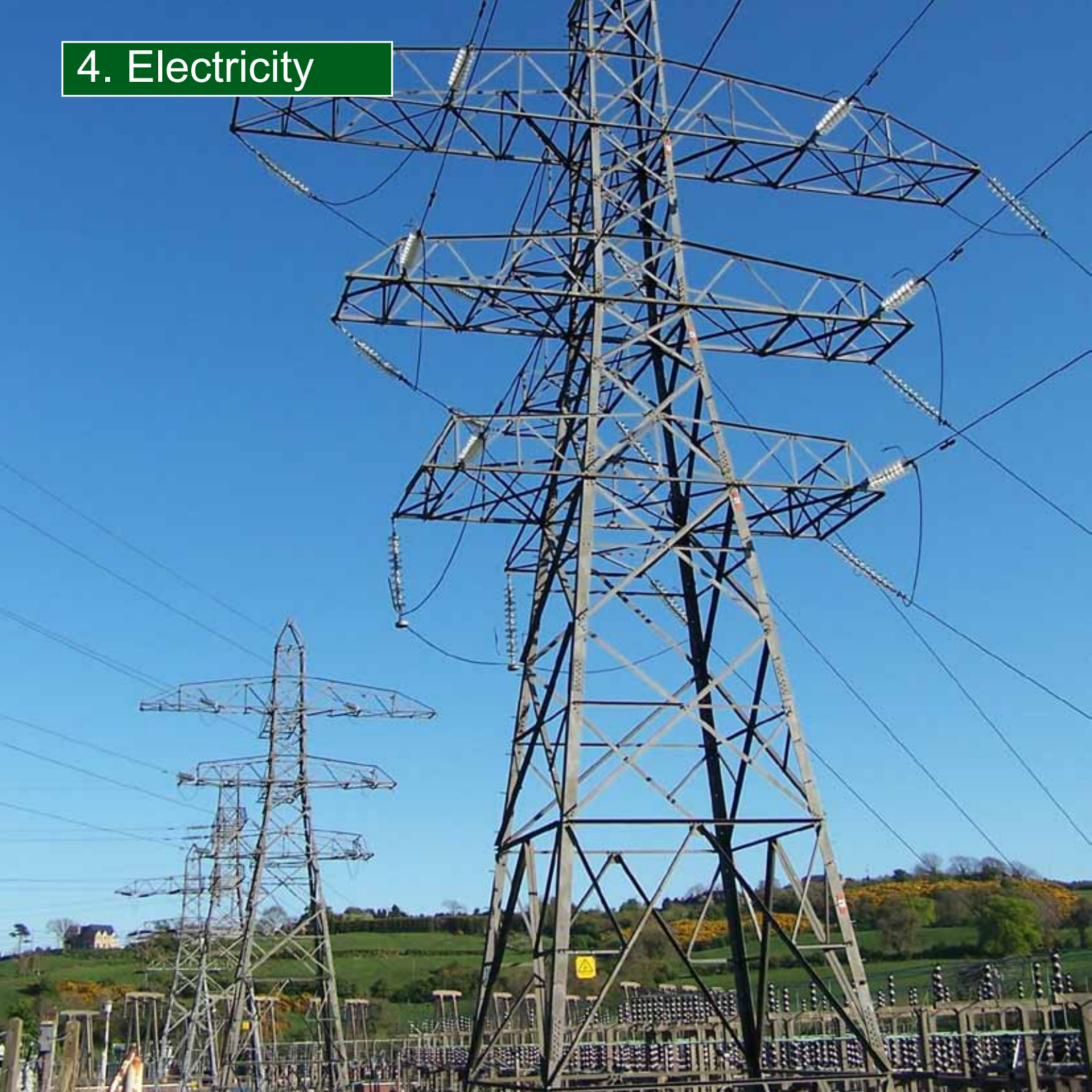
## Water

- NI Water made good progress to deliver the actions in our Freeze/Thaw Recovery Plan.
- our Cost and Performance report showed that NI Water has exceeded operational efficiency targets and improved its overall performance assessment score.
- following an assessment of evidence, we released NI Water from legally binding undertakings in relation to data quality.
- we have engaged with stakeholders on the planning of our next price control, PC13.

## Effective and efficient regulator

- we achieved or partly achieved 92% of our Forward Work Plan targets and accommodated unanticipated workstreams while further reducing our budget.
- we completed a mid-term review of our corporate strategy 2009-14.
- we consistently met, and sometimes exceeded, standards for the payment of suppliers.
- we published proposals on network price controls.

# 4. Electricity



## At a glance

- **We advanced the NIE T&D price control and consulted on our proposals on the Power NI PPB price control – which proposes efficiencies amounting to 10%.**
- **Reviews of market power and liquidity and the Capacity Payment Mechanism (CPM), in conjunction with the Commission for Energy Regulation (CER), identified improvements that will enhance the operation of the SEM - and ultimately benefit consumers.**
- **We initiated a project to advance regional integration and ensure that Northern Ireland is able to comply with the requirements of electricity market integration.**
- **The publication of the Demand Side Vision and the DS3 (delivering a secure, sustainable electricity system) initiative will enhance security of supply and promote sustainability.**

This section covers the generation, transmission and distribution of electricity.

The electricity industry continues to evolve and change. While we increasingly focused our resources on advancing EU regional integration, we also took the opportunity to refine operational aspects of the SEM. Our scrutiny of the NIE T&D investment plan was the most significant price control that the organisation undertook during 2011-12. Additionally, we also carried out the PPB price control. For both price controls, our focus was on securing value for consumers. The importance of security of supply and sustainability was demonstrated by two projects, the Demand Side Vision and the DS3 initiative, which we advanced during the last year.

## Promoting efficiency and monitoring the investment plans of regulated companies

We aim to deliver value for consumers through our scrutiny of the investment plans of regulated utility companies. Our price control decisions ensure that regulated companies receive an efficient level of revenue so that they can finance their activities and invest in their business. We therefore act as a surrogate for competition to protect consumers.

In February-April 2011, NIE T&D, which owns and maintains the electricity transmission and distribution network, submitted its investment plan as part of the price control process (the NIE T&D price control is also called RP5). The submission envisaged £1.06 billion of network investment over the period 2012-17.

During the latter part of the year we engaged in robust and detailed scrutiny of this investment plan. This involved a full assessment of all of the investment proposals. A special process has also been employed to assess the infrastructure investment required to support the connection of renewable generation.

Our work on the RP5 price control has also been enhanced by engagement with stakeholders. We held workshops with stakeholders during the first part of the year.

Following our scrutiny of further information received by NIE T&D, the draft RP5 price control determination was published in April 2012.

Separately, in December 2011, we published a price control consultation paper, outlining the proposals for the Power NI (formerly NIE) PPB. PPB purchases power under the long term legacy contracts (PPAs) from independently owned generators and sells that power directly to the SEM pool. Furthermore, the business enters into contracts for differences (CFDs)

with suppliers in both jurisdictions (Northern Ireland and the Republic of Ireland).

A key feature of our proposals in the price control consultation paper was that PPB's allowance should be reduced by 10%.

The PPB price control decision was published in April 2012 and will apply for the period April 2012 - March 2015.

### **Promoting market opening and competition**

After over four years, the SEM continues to deliver benefits to consumers. The SEM ensures that the price of electricity charged to consumers is reflective of the costs incurred by the generators to actually produce the electricity. Further development of new generation on the island of Ireland has increased investment and competition in the wholesale market.

Along with CER, the SEM Committee jointly commissioned us to undertake two reviews aimed at assessing the operation of the wholesale market.

The first project focused on a review of market power and liquidity in the SEM. Given the concentrated nature of the market, this project was initiated to assess two things: firstly, existing market power mitigation measures already in place and, secondly, options for improving liquidity in the SEM contracts market. One option will change the ownership structure of the ESB generation business in the Republic of Ireland, leading to increased regulated power generation contracts. The review confirmed that the market power mitigation strategy already in place has helped to ensure that generator bids are competitive, resulting in SEM wholesale prices that are efficient. Finally, the SEM Committee agreed that active monitoring of the spot and contracts market for evidence of market power would continue



to be undertaken. In this regard, the SEM's Market Monitoring Unit (MMU) will continue to monitor the SEM for market abuse and non-compliance with market rules. The MMU will also investigate bidding activity as required and provide ongoing reports to the SEM Committee.

A further project reviewed the CPM, which aims to incentivise the availability of both existing generation and new investment in capacity when it is required. The review involved a historical analysis of the CPM and its various elements, an assessment of alternative options and the impact of the CPM on consumers. Following a consultation on the review, several measures were identified to improve the operation of the CPM, which will take effect from 2013. The improvements include: enhancing the robustness of the CPM methodology, reducing the cost of the CPM and a more stable payment stream - which will be fixed for three years. It is anticipated that the introduction of the improvements will create an environment that will increase certainty for investors. This may promote market entry, which will ultimately exert downward pressure on elements of consumer electricity bills.

The Third Internal Energy Market Package (IME3) has continued to promote the liberalisation of the energy market across the EU. Directive 2009/72/EC has identified the need to remove incentives to discrimination in access to the transmission system and encourage investment through separation of the transmission network from generation and supply (this is called unbundling). The Directive specifies several unbundling options to ensure separation of the transmission network from generation and supply. We will be required to certify transmission system operators as being in compliance with the full ownership unbundling requirements or one of the alternative unbundling models set out in IME3. We published guidance on the certification process in December 2011.

We have been evaluating applications for certification and have four months to make a preliminary decision, unless additional time is required to obtain further information necessary for the decision. In the case of an application under full ownership unbundling, the final decision on certification will be taken by us - having taken account of the opinion of the (EC).



For an application seeking derogation, as set out in Article 9(9) of the Directive, the final decision will be made by the EC.

The cost of power generation is one of the largest elements of consumer electricity bills. During the last year we carried out further consultation on the potential cancellation of certain contracts (called Generating Unit Agreements – GUAs) between PPB and the generators. Following consultation on our minded-to position in September 2011, we decided to keep the remaining GUAs under review, with a decision paper expected in the first half of 2012.

### **Co-operation at a European level – regional integration**

The EC has established the deadline of 2014 for the completion of the internal electricity market. The vision behind the greater regional integration of the electricity market is called the Target Model. In order to achieve this, electricity markets across Europe must share a set of common features and be linked by efficient management of interconnection capacities.

The SEM Committee commissioned a major project to implement the Target Model on the island of Ireland. The project team is led by the regulators (the Utility Regulator in Northern Ireland and CER in the Republic of Ireland) and also involves the Transmission System Operators (TSOs - Eirgrid/SONI and the SEM market operator (SEMO)). The aim of the project is to ensure that the island of Ireland meets all the requirements of the Target Model by 2016.

In January 2012, the SEM Committee published a three-month consultation paper on 'Proposals for implementing the Target Model in the SEM'. This paper is intended as a first step in the process of reaching the goal of European market integration by 2016. It is a discussion document to stimulate debate



and inform the SEM Committee and government policy. The paper investigates whether the Target Model would be best achieved via developing the current SEM or instead, through a full scale review.

Recommendations for any new market arrangements will be made by the SEM Committee and be subject to approval by the respective government departments in both parts of the island of Ireland.

### **Taking steps to address security of supply and promote sustainability**

We recognise that the issues of security of supply and sustainability are interconnected. Achieving diversity in the energy generation mix (including a greater contribution from renewable sources) is an important factor for addressing security of supply concerns.

Demand side response and management – getting electricity users to vary demand in response to changes between supply and demand - has been identified as a key weakness in electricity markets. It is well established that demand side participation brings a number of benefits to electricity markets, including increased security of supply, greater

efficiency in consumption and increased competition - both in the wholesale and retail markets.

Following wide consultation with industry, consumers and other stakeholders, a decision paper was published by the SEM Committee in August 2011: 'The Demand Side Vision for 2020'. This paper set out a plan that identified 13 key steps in order to implement a Demand Side Vision.

We have taken steps to implement this vision. We continue to operate NISEP and contribute to the work of the UK National Energy Action Plan - which covers Northern Ireland. As a member of the Sustainable Energy Interdepartmental working group, we work with Government departments and public bodies to advance initiatives that include the promotion of energy efficiency. Working with industry stakeholders, we continue to identify opportunities to include demand side response in the operation of the industry.

We will monitor progress of the implementation of the Demand Side Vision decision and will conduct an annual review of the 13 key recommendations within the decision paper.

In conjunction with CER, we advanced a programme of work to address challenges arising from the requirements of the EU Renewables Directive. This involved the TSOs carrying out analysis and put in place a programme of actions in order to address the system operation challenges.

This programme is called the 'DS3 Programme – Delivering a Secure, Sustainable Electricity System'. The review of system services will be one of the key workstreams in the DS3 project. It involves the TSOs analysing the requirements of the electricity system on the island of Ireland for system services to support the secure and reliable operation of the system.



The first consultation (led by the TSOs) on the DS3 system services review commenced in December 2011. This was a high level consultation seeking views from interested parties on a range of questions on the provision of system services. A further consultation is being developed by the TSOs and will be presented to the SEM Committee later in 2012. This consultation will provide the TSOs assessment of new services required for the system in 2020.

We will consider the options and proposals put forward by the TSOs (and also by the industry) and the SEM Committee will subsequently make a decision on the outcome of the DS3 system services review. It is anticipated that the main outcome of the DS3 programme will be a redistribution of revenue for the services required to enable the system to meet the renewable targets by 2020.

### **Monitoring network security and reliability and promoting service standards**

We continue to monitor network security and reliability and review reports received from NIE T&D relating to service interruptions. Our objective is to ensure that the network performance ensures that investment is meeting expectations.

Moreover, we monitor on a quarterly basis, the quality of service provided by NIE T&D to ensure compliance with Guaranteed Standards of Service (GSS).

During the last year we also completed a review of connection costs and this has led to us requiring NIE T&D to improve the transparency of connection charges. Our decision removed the subsidy for domestic connections. The impact of this decision will be to reduce electricity bills for all domestic consumers.



# 5. Gas



## At a glance

- **We published our PNGL price control decision which envisaged reductions in all gas consumer bills in the Greater Belfast area and over £10,000 of savings each year for large energy users.**
- **Volatility in wholesale energy costs initially led to a significant tariff increase for gas consumers in the Greater Belfast area, followed by a reduction in early 2012.**
- **We published our PSL price control decision, which identified £5.5 million of savings for consumers.**
- **Our intervention to increase switching limits, led to an unprecedented level of switching between gas suppliers by consumers in July 2011.**

Significant increases in wholesale fuel costs led to volatile consumer prices. We advanced price controls on three different gas businesses during the year. In the case of PNGL, the company rejected our price control decision and proposed licence modifications, leading to a Competition Commission (CC) referral. There continued to be developments associated with the growth of the natural gas market, and we consulted on a gas storage licence for the first time. While there was limited progress on moving forward arrangements for harmonising gas transmission systems across the island of Ireland, we continued to work closely with CER on the project.

### Protecting consumers' interests through our scrutiny of tariffs

Our scrutiny of consumer bills is focused on making sure that the bills which they pay reflect the cost of production.

Prior to 2011, Greater Belfast had enjoyed, over a two year period, among the lowest domestic gas prices in the UK and Ireland. The early part of 2011 saw significant increases in wholesale energy costs, which make up 55% of consumer bills. This led to us delaying the outcome of the review of PSL tariffs. Following scrutiny of a submission from PSL to increase regulated tariffs, we reluctantly agreed to an increase of 39.1% in April 2011.

At this time we recognised the impact that this increase would have on household budgets. We made a commitment that we would act to make sure that any decrease in wholesale energy costs would be reflected in consumer bills as soon as possible. Following such a decrease in wholesale costs in the latter part of 2011, we agreed an 8.5% decrease in consumer bills, which was announced by PSL in February 2012.

### Promoting efficiency and monitoring regulated company investment plans

A major part of the work of our gas team during the past year was carrying out price controls on three different gas businesses.

We published a draft price control determination (for the period 2012-14) in August 2011, for the gas distribution company in the Greater Belfast area - PNGL. Following the conclusion of the consultation and consideration of the responses, we published our price control decision paper in January 2012.

Our main price control decision related to an adjustment to the PNGL regulatory asset value (RAV), amounting to £74.4 million. This reflected our decision on two key issues. Firstly, consumers should not have to pay for assets (e.g. pipes) before they are built – which represents £17.1 million of the adjustment to the RAV. Secondly, that there should be sharing of



outperformance with consumers based on regulatory practice elsewhere – which is the remaining £57.3 million of the adjustment.

For all gas consumers, the main impact of the PNGL price control decision would be lower bills. Our price control decision envisages that around 50 large energy users (including hospitals) would save more than £10,000 per year until 2046 (the end of the PNGL licence period). For average domestic consumers there would be a £25 per year saving to gas bills compared with PNGL proposals.

In terms of investment by PNGL, the price control decision would see a greater amount of connections to the gas network – with increased connection targets by 1,000.

PNGL rejected our price control decision and proposed licence modifications on 6 February 2011. We therefore referred the PNGL price control licence conditions to the CC. The CC will assess whether the PNGL price control licence conditions operate against the public interest. It is expected that the CC will report in September 2012.

Separately, we also carried out a price control on PSL, for the period 2012-16, which is a gas supply company in the Greater Belfast area. We commenced a consultation on our proposals in June 2011.

Following the consultation we published our price control decision in November 2011. This decision identified £5.5 million of savings for consumers, reducing the company's proposed operating costs by over 20% on average. This equates to a consumer saving of around £9 per annum over the period of the price control.

Finally, we advanced our price control for Bord Gais Eireann (BGE), the gas transmission business, during the last year. In November, we published a paper consulting on the process, timetable and approach for the price control 2012-17. Following this consultation, we published our initial proposals on BGE's operational expenditure in April 2012.

### **Promoting market opening and competition**

We continue to promote competition in the natural gas market.

The Gas Market Opening Group (GMOG), a forum established by us to support gas market opening and enables us to engage with key stakeholders (e.g. licence holders) on market development issues.

During the year we took steps (during March/ April) to support the increase to consumer switching thresholds in the Greater Belfast area. This was to ensure that any desire by consumers to switch their supplier, was not frustrated by system constraints. Data shows<sup>1</sup> that there were a record number of confirmed switches, between gas supplier, by domestic non-prepayment consumers during June 2011.

We continued to advance preparations for market opening in the Ten Towns area (the district towns outside Belfast currently supplied – under an exclusivity arrangement – by firmus energy). The market for the large industrial and commercial (I and C) market across the Ten Towns area is due to open in October 2012. The market for small I and C and domestic consumers is due to open in April 2015. We completed the process to extend and modify the scope of the existing gas supply licensees to allow them to enter the market in the Ten Towns area, if they chose to do so, from October 2012.

As well as market opening, we continue to engage with DETI on greater access to the natural gas market, where it is economic to do so. We advanced work to set out options regarding licensing arrangements and regulatory frameworks in respect of the gas to the west project. We published a consultation document in May 2012 seeking views on the options regarding licensing arrangements and regulatory frameworks.



#### **Cross border co-operation – the Common Arrangements for Gas project**

We continue to play our role in developing the Common Arrangements for Gas (CAG) project. The project aims to harmonise gas arrangements on the island of Ireland and has the potential to bring real benefits to Northern Ireland gas consumers.

In the last year we published a high-level timeline for CAG implementation, which detailed key process milestones, and we also undertook a series of stakeholder workshops and consultation.

In a joint update with CER to industry in February 2012, we acknowledged that there are still substantive outstanding issues awaiting resolution. To address these issues, the update set out the next steps in the CAG project. This focused on two issues: a study on the technical issue of the single balancing zone and a cost benefit analysis (commissioned by CER specifically).

While both studies are being undertaken, the energy departments in both parts of the island of Ireland,

<sup>1</sup> Retail Market Monitoring Quarterly Transparency report (published in February 2012)



will continue to progress the drafting of the CAG legislation.

As a consequence of delays in certain elements of CAG, the EU announced that it had referred the UK and Ireland Member States to the European Court of Justice for non-compliance with the Gas Regulation in the EU Second Package (IME2). Following the announcement, we urgently focused our resources on ensuring immediate compliance with IME2. An action plan was developed to address the non-compliance and we expect to be in a position to deliver this within the anticipated timetable.

### **Consumer protection measures**

We made significant progress in implementing IME3 requirements, which have an emphasis on consumer protection measures. Consultations and workshops took place in January 2012 and we considered stakeholder feedback before publishing proposed decisions and licence modifications in April 2012. Responses on the proposed final decisions will be compiled and addressed in a paper for DETI which will seek approval for the final licence modifications. The final set of licence modifications are due to be submitted to DETI for approval in June 2012.

These modifications will significantly increase the level of consumer protection and will provide the basis for new codes of practice which set out clear rules on how consumers should be protected in their interaction with energy companies.

### **Promoting service standards**

We issued our consultation paper on standards of performance in July 2011 and a decision paper in April 2012. This set out the specific standards which gas companies will have to guarantee to meet in servicing consumers, as well as overall standards.

Failure to meet the guaranteed standards will require the company to make payments to consumers and these are detailed in our decision paper. Areas covered by these measures include interruption of service, meter disputes, responding to queries and keeping appointments. Payments to domestic consumers for failure to meet the guaranteed standards range from £25-£50.

### **Monitoring network security and reliability**

The Joint Gas Capacity Statement (JGCS) was completed and published in August 2011. The JGCS assesses the ability of the gas transmission network in Northern Ireland and the Republic of Ireland to meet potential demand and supply scenarios over the ensuing 10 years. It is produced every year and assists the TSOs and regulators to identify any issues that need to be addressed. This helps make sure that the network is robust enough to cope with future requirements. We continue to work closely with CER and the TSOs to ensure that the gas network is robustly designed to handle future demand and supply scenarios.

The European Security of Supply Regulation 994 is an ongoing piece of work to co-ordinate security of supply issues on a regional and European level.

We have been working with our regulatory counterparts in Dublin and London to align risk assessments, emergency plans and preventative action plans. This work will continue to ensure security of supply is co-ordinated across jurisdictions.

Plans for gas storage were advanced in the past year. We finalised gas storage licence arrangements and subsequently received our first storage licence application in April 2012.



## 6. Retail and Social



**Airtricity**

energy made better

taking natural gas further  
**firmus**  
energy

  
**power ni**  
your kind of energy

  
**budgetenergy**  
low cost electricity

  
**PHOENIX**  
NATURAL GAS SUPPLY

**electric**  
**Ireland**



## At a glance

- **Our Power NI price control decision identified £20 million of savings for consumers.**
- **Wholesale fuel cost increases were the reason for higher Power NI electricity bills.**
- **Our ongoing work to develop the retail domestic electricity market has increased switching capacity levels and the number of consumers switching from the regulated supplier now approaches 100,000.**
- **We have advanced the implementation of EU consumer protection directives that will provide greater transparency for consumers on tariffs and terms and conditions and additional protection for all consumers.**

The impact of volatile international wholesale fuel costs also had an impact on regulated electricity tariffs. Much of the work of the retail team during the year focused on developing the competitive market in electricity. The consumer protection measures relating to the implementation of IME3 was also a significant workstream for the retail team.

### **Protecting consumers' interests through our scrutiny of tariffs**

We carried out an annual review of the Power NI regulated electricity tariff. Power NI supplies electricity to the largest number of domestic households in Northern Ireland.

Our job is to make sure that any changes to Power NI's tariffs are justified. We scrutinise a range of costs submitted by Power NI to make sure that they are at an appropriate and efficient level.

Our electricity team scrutinise the network charges which comprise the bulk of the non-wholesale element of the tariff. The non-wholesale element includes use of network charges, the public service obligation, as well as system planning, operation and dispatch costs. Importantly, the non-wholesale element of the tariff has reduced in real terms over the last two years. Since there was no change in the tariff in the previous year, it can be shown that changes in the tariff were due almost entirely to the increase in wholesale fuel costs.

The review involved engagement with key stakeholders such as DETI and Consumer Council for Northern Ireland (CCNI). During the review period, we published a detailed tariff briefing paper which explained the movements in each of the separate elements which make up the tariff. The publication of this paper is intended to increase the transparency of the regulated tariffs.

Following the conclusion of the review, and in the context of increased international energy costs, we reluctantly agreed that Power NI could increase its tariffs by 18.6%. While we were satisfied that the change to the tariff accurately reflected the costs of supplying the electricity, we were also mindful of the impact that the increase would have on household budgets.

### **Promoting efficiency and monitoring the investment plans of regulated companies**

We also engaged with Power NI on setting a price control for the period 2012-14.

As with all of our price controls, this involved us scrutinising a submission for Power NI, which estimated the costs of running the business. Having assessed this submission and carried out further analysis (including the benchmarking of costs with

other utility companies), we published price control proposals for consultation in May 2011. The proposals focused on setting an appropriate level of costs for Power NI and the margin (i.e. the level of profit which they are allowed to make from their regulated consumers).

In October 2011 we published our price control decision paper. This decision identified £20 million of savings to consumers, compared to the submission from Power NI, and we kept the margin at 1.7%, which is among the lowest margin for a regulated energy utility in the UK or Ireland. We subsequently announced, in January 2012, that Power NI had formally consented - without amendments - to the licence modifications giving effect to the price control decisions.

#### **Cross border co-operation with other regulatory authorities – harmonising retail markets**

One of our statutory functions is to protect consumers by promoting effective competition where appropriate.

In this regard we, along with CER, initiated a project to harmonise the market messaging infrastructure for the retail markets across the island of Ireland. This technical project will help suppliers to work in a more efficient way with the market. This would enable a move to one harmonised market schema which would interface with suppliers through a shared gateway.

The harmonised project is nearing completion and we expect that there will be full harmonisation and an all-island market schema by September 2012. A Harmonisation Steering Group, which has overall governance of the schema, has been set up along with all associated administrative arrangements to support implementation.

Harmonisation will reduce costs for suppliers in both jurisdictions and facilitate entry of new suppliers into the market who wish to operate in both jurisdictions.

#### **Promoting market opening and competition**

Over the last few years we have been moving forward work to promote the benefits of competition.

We have ensured that the interim switching systems developed by NIE (and replaced in May 2012) have been fully utilised - especially in the keypad domestic market. Furthermore, we have considered and approved (after any amendments required) the codes of practice and terms and conditions of each new entrant supplier into the domestic market. The overall ceiling for switching limit capacity for the interim system has also increased from 125,000 to 140,000. Overall, the total capacity of domestic switches available to the market has increased from 6,000 per month to 10,000 per month.

The outcome of the further enhancement to the switching systems has been the positive indicators of consumer choice in the market. As of the end of March 2012, there were five active suppliers in the Northern Ireland domestic market. 96,500 customers have switched from Power NI to the new suppliers. This represents 12.5% of the domestic electricity market<sup>2</sup>.

We also advanced the major IT programme to provide a system which would deliver unconstrained domestic electricity consumer switching capacity. This Enduring Solution system went live, as planned, in May 2012. More broadly, we published our thinking on the future development of the retail market in July 2011. This document outlined our approach to the regulation of

<sup>2</sup> Quarterly Transparency report for Quarter 1, 2012, [www.uregni.gov.uk/uploads/publications/Transparency\\_Report\\_2012\\_MAY.pdf](http://www.uregni.gov.uk/uploads/publications/Transparency_Report_2012_MAY.pdf)

the retail markets in electricity and gas in the context of a two to three year time horizon. A main feature of the document was the proposal to retain price controls for the incumbent gas and electricity suppliers. Our final document, which supported the proposal to retain price controls, was published in May 2012.

### **Consumer protection measures – IME3**

The Gas and Electricity (Internal Markets) Regulations 2011 implement the majority of the requirements of the two European Directives on market liberalisation in the energy sector.

A key focus of the regulations is on ensuring high levels of protection for consumers in Northern Ireland. During the year we have sought to give effect to the regulations through licence modifications and new licence conditions. Following a detailed consultation process, we published our notification of decisions on the suite of proposed licence modifications required to implement the consumer protection elements of IME3. After a second-stage consultation, these modifications will be submitted for DETI consent and we expect that approved modifications will be made to licences during the latter part of 2012.

The proposed modifications deliver the high level of consumer protection measures for energy consumers in Northern Ireland envisaged under IME3. These include provisions to enable consumers to switch supplier within three weeks and increased transparency in the information that is provided to them. This includes information on their terms and conditions, dispute settlement rights, tariff and consumption data and enhanced codes of practice. The codes of practice includes a marketing code to help protect consumers from misleading selling practices as well as additional protection for vulnerable consumers including a cap on debt recovery.

### **Monitoring the retail market**

One of our statutory functions is to keep the development of the retail energy market under review. We monitor the development of competition in the retail market to ensure that it works for consumers.

Through retail market monitoring we collect, analyse and publish some key supply energy market information (i.e. market shares, switching information, domestic price comparisons, etc). We use this information to understand more about the progress and impact of supply competition. This helps us build knowledge for regulatory decisions and also comply with IME3 mandatory requirements on market monitoring. It also allows other interested stakeholders to understand more readily the activity within our energy markets.

We publish the Energy Retail Report on an annual basis. The last of these reports was published in October 2011. Also, at the beginning of 2011, we started a series of quarterly reports on key information on the retail markets.

Through this project, we are able to hold and update a retail database that we use internally (to understand the process of market opening and suppliers' behaviour) and to address external information requests from stakeholders.

### **Access to consumer consumption data**

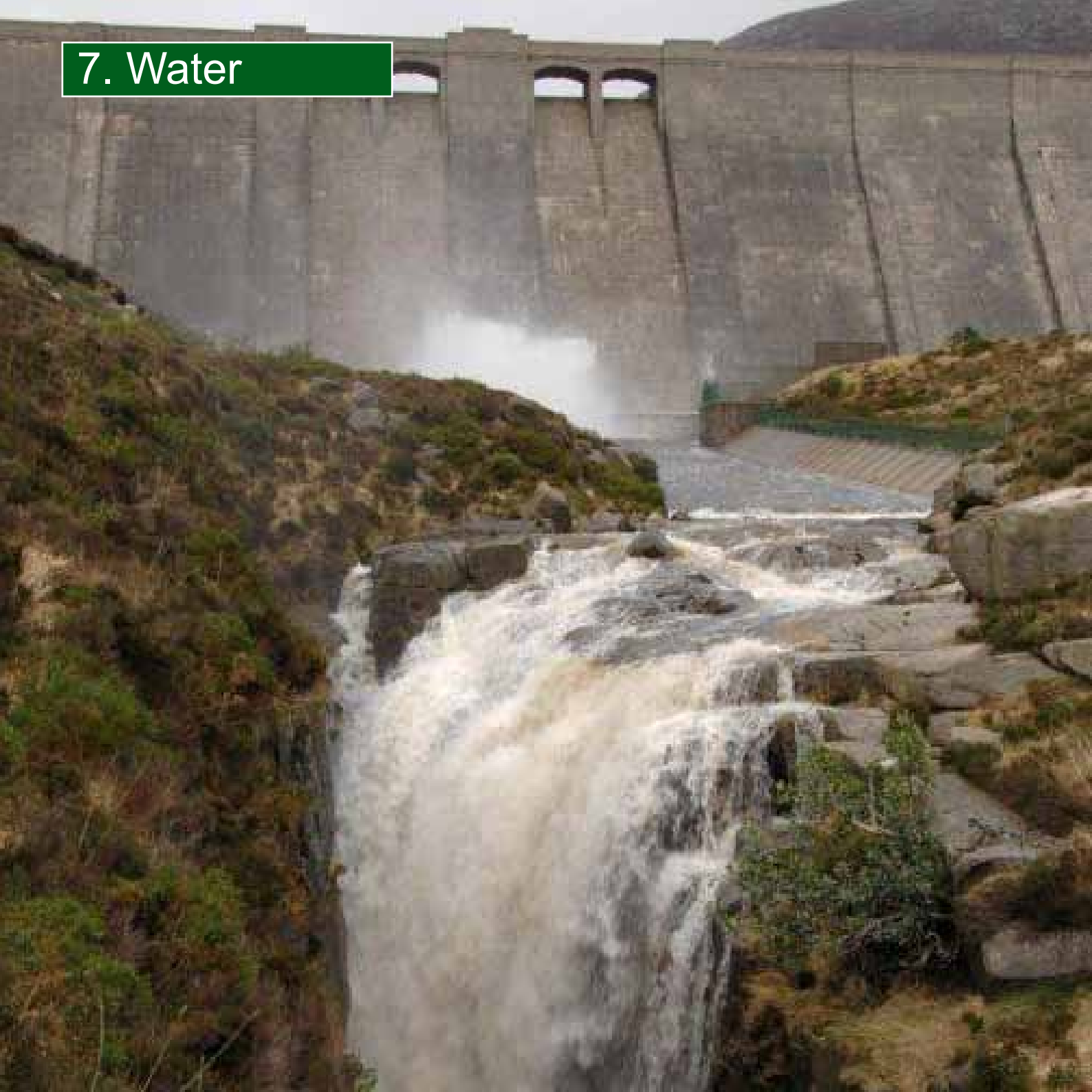
IME3 entitles all energy consumers (both domestic and non-domestic) to receive information on their relevant consumption data. Through its implementation of the requirements of the package and implementing regulations, we have proposed a number of licence modifications which will ensure that all consumers have easy access to their consumption data free of charge.

Our proposals will ensure that consumers are provided with their consumption data regularly enough to adjust their energy usage if necessary.

We expect that the legislative and regulatory changes to enable consumers to access their consumption data to be in place by the end of 2012.



# 7. Water



## At a glance

- **Good progress has been made by NI Water to deliver the actions in our Freeze/Thaw Recovery Plan which was developed following major water supply disruptions in 2010-11.**
- **Our Cost and Performance report showed that, while there is scope for further improvement, NI Water has exceeded operational efficiency targets and improved its overall performance assessment score.**
- **Following an assessment of evidence, we released NI Water from legally binding undertakings in relation to data quality.**
- **We engaged with stakeholders on the planning of our next price control, PC13.**

Following the major water supply disruptions of 2010-11, and our subsequent investigation, we closely monitored the delivery of actions to address the problems identified. We also reviewed progress by NI Water on delivering on legally binding undertakings relating to data quality. Our focus on value for money will be central to our approach to the new price control, PC13, which was advanced during the year. Value for money was also central to our assessment of NI Water's cost and performance and was also key to our scrutiny of the company's scheme of charges.

### Monitoring the delivery of the Freeze/Thaw Recovery Plan

We carried out an investigation into NI Water's response to the freeze/thaw incident in December 2010-January 2011, when there was major water supply disruption across Northern Ireland. Our report established that extreme weather, an unprecedented loss of water through leakage and a failure of

leadership by NI Water were main factors behind the water supply disruption. Our investigation report set out a recovery plan for addressing the problems identified, and comprised 56 recommendations.

In 2011-12 we worked with NI Water to monitor the company's progress in delivering the recovery plan recommendations. The focus of this monitoring was to make sure that adequate steps were being advanced to learn from the incident and make the necessary preparations for winter 2011-12.

Following publication of our investigation report, we sought a commitment from NI Water - relating to the delivery of our recovery plan recommendations - and this was provided. This included a schedule of actions on the provision of information and ongoing monitoring arrangements. This approach resulted in the provision of a detailed action plan against which progress could be monitored on a monthly basis and regular progress reports to the wider stakeholder group. NI Water published reports on its website to inform consumers of progress. Formal reports for review by stakeholders (called closure reports), were also produced by NI Water to demonstrate the completion of actions. We met NI Water to review the closure reports and the work undertaken to deliver each action in detail.

NI Water reported completion of the majority of their short-term actions in advance of winter 2011-12. Reporting of progress on the delivery of the remaining short-term actions and longer-term actions will continue during 2012-13.

Based on the information received, NI Water appears to have made good progress to date. NI Water remains responsible for delivering and maintaining the improvements required under the recovery plan and for continuing to consider further opportunities to build



on any improvements made.

### **Delivering lower costs and improved levels of service to consumers**

As with the other utilities we regulate, our price control relating to NI Water is focused on making sure that the company provides an effective service to consumers at lowest cost. The price control results in a contract between us and the company, and sets out the money which the company requires to run its business and is allowed to charge.

The current price control, PC10, concludes in 2013. We therefore advanced the planning of the PC13 price control. A key element of this planning has been engagement with stakeholders in developing the process. The PC13 overall approach document, which we published in October 2011, was produced after a period of significant stakeholder engagement. The document sets out the PC13 programme timetable. It also includes key issues such as: working within a public expenditure context, applying a proportionate approach and areas of focus during PC13.

We will publish our PC13 draft determination in September 2012 and final determination in December 2012. It is important we do not work in isolation and we therefore seek to co-ordinate the roles of other principal stakeholders in developing the PC13 process. We have embraced a two-year PC13 price control in consideration of the public expenditure regime. Separately, we are also progressing a more strategic six-year price control commencing in 2015.

### **Protecting the interests of business consumers**

In Northern Ireland, there are separate charging arrangements for non-domestic water and sewerage consumers.

We are required under the Water and Sewerage Services (NI) Order 2006 to approve NI Water's annual scheme of charges. The key purpose of the approval is to ensure charges are within the price limits determined by our PC10 price control. We also seek to make sure there is no undue preference or undue discrimination by NI Water in setting charges between different consumer groups.

We commenced the process for setting the scheme of charges in August 2011. As well as assessing information provided by NI Water, we also engaged with other stakeholders, particularly CCNI. Following this engagement and scrutiny, we approved NI Water's charging proposals for 2012-13 in March 2012, which we found to be within the limits set in our determination of prices for the PC10 period (2010-13).

Separately, we also published a detailed report on 2011-12 scheme of charges in September 2011. This report describes our approach to approving and assessing NI Water's charging scheme and formally sets out NI Water's approved charges.



### **Enforcing improvements in data quality**

In February 2009, following an investigation into information relating to NI Water's costs and tariffs, we accepted certain undertakings from the company as an alternative to enforcement action. The data quality undertakings were focussed on improving the accuracy and reliability of data contained in bills and statements issued to consumers and other data held by NI Water.

We have continued to monitor the company's progress on the undertakings through quarterly monitoring. The submission of its Annual Information Return (AIR) 2010-11 and additional evidence has also helped us to form a judgement on the company's progress on meeting the undertakings.

After a review of progress, we announced the release of NI Water from legally binding undertakings in relation to data quality in March 2012. This follows receipt of evidence which indicates the company has delivered on actions leading to substantial improvements in its data quality. A programme of further improvement work is still required and we will continue to meet NI Water regularly to monitor the delivery of the ongoing data quality programme.

### **Monitoring NI Water's performance**

In support of our objective of ensuring that consumers receive value for money from NI Water, we monitor the company's performance against its PC10 objectives. We do this through the review of their AIR, which allows us to measure and compare costs, performance and standards of service both now and over time. We then publish the results of our analysis annually in our Cost and Performance Report. Despite the many challenges facing the company

and the impact of the freeze/thaw incident, NI Water has still managed to exceed operational efficiency targets by £6.1 million. NI Water has also improved overall service performance, as measured by the Operational Performance Assessment (OPA), with the score increasing from 121 to 131. Although this was 11 points lower than the target of 142, improvements in drinking water quality, pollution and consents more than offset the negative impact of the freeze/thaw.

We have identified scope for further improvement with a 39% operational efficiency gap and OPA score significantly below the scores of the average comparator English and Welsh water companies.

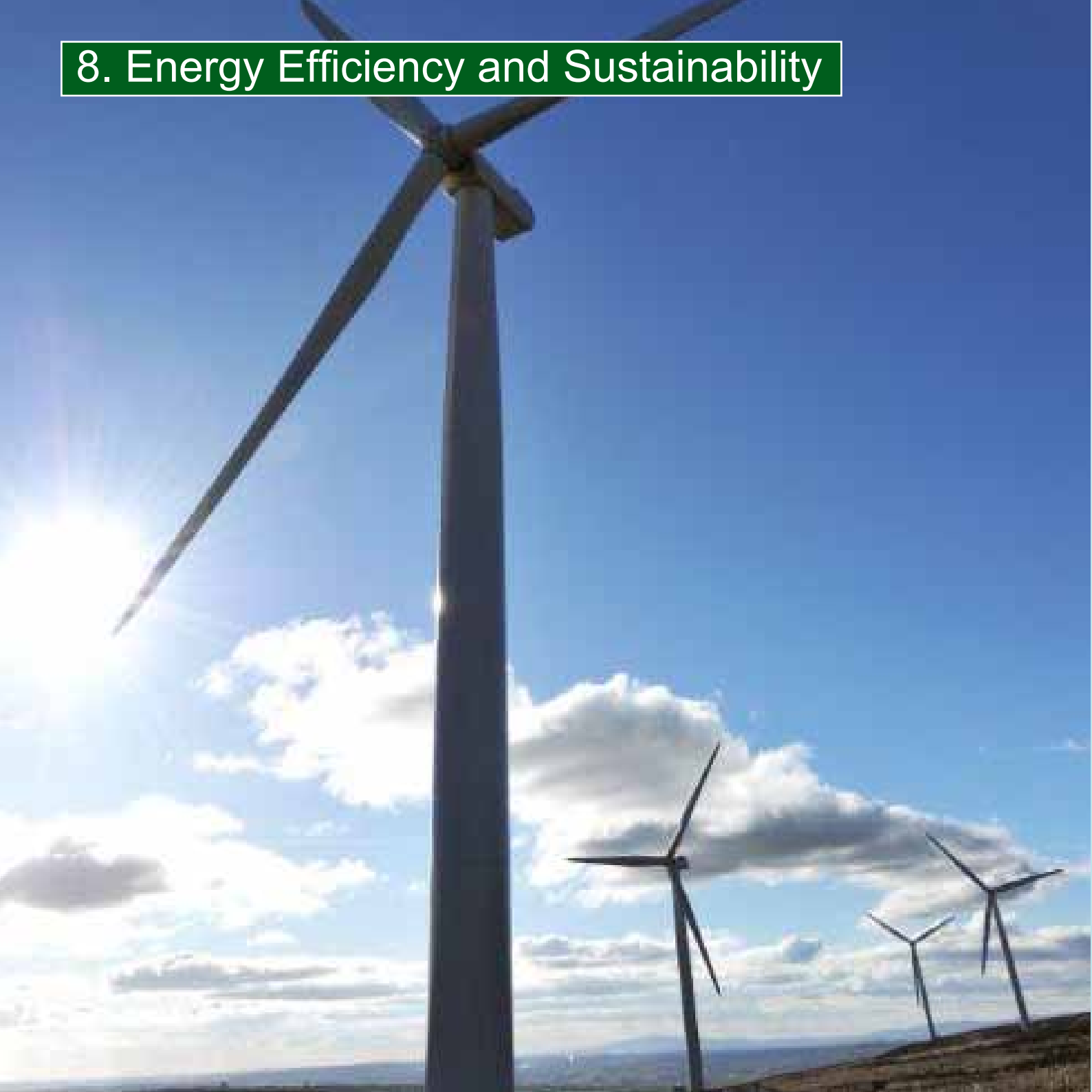
### **NI Water governance**

The Department for Regional Development (DRD) and the Utility Regulator signed a Memorandum of Understanding (MoU) in November 2010. The MoU set out how we would work together in discharging respective functions and consider requests for variations to funding. This also resulted in licence modifications taking effect on 1 September 2011.

A practical outcome of the engagement with DRD has been the development of an agreed process for managing NI Water funding variations. This process was used twice during 2011-12 with both determinations resulting in no impact on charges to consumers.

More broadly, we continue to work with key stakeholders to ensure the most effective operation of the current governance and funding arrangements for NI Water. We will continue to contribute, as relevant, to future discussions on water and sewerage services in Northern Ireland.

## 8. Energy Efficiency and Sustainability



### At a glance

- **£5,790,097 million of funding was specifically provided to projects targeting vulnerable consumers under NISEP.**
- **Our support for renewable development was demonstrated by a record number of accreditations of additional generating stations able to claim Renewables Obligation Certificates (ROCs).**
- **We worked closely with DETI, to inform and assess the Northern Ireland impact of the Coalition Government's Electricity Market Reform proposals.**
- **Following our publication of fuel mix calculations for all suppliers on the island of Ireland, consumers are now able to understand and verify the environmental impact of their electricity consumption.**

We continue to promote practical approaches to sustainability. This includes the use of incentive mechanisms to support renewable generation. It also includes initiatives aimed at promoting energy efficiency by consumers –through grant funding (in the case of NISEP) or providing information on the fuel mix of their suppliers. More widely, we have been contributing to the impact of broader policy and legislative measures on Northern Ireland. We have contributed to discussion on the Northern Ireland impact of the Electricity Market Proposals developed by the Coalition Government and the new EU Energy Efficiency directive.

### Promoting sustainable energy for vulnerable consumers – the Northern Ireland Sustainable Energy Programme

We have a duty to promote efficiency in the use of electricity and gas and sustainable long-term energy supplies, with due regard to the environment

and vulnerable consumers. NISEP delivers energy efficiency measures with 80% of the funding aimed at vulnerable consumers.

In the year 2011-12, overall funding of £7,235,413 was raised from consumers and combined with an underspend from the previous year to give a total of £7,407,741. A total of 19 energy efficiency schemes were delivered, eight of which were aimed at priority vulnerable consumers. A total of £6,197,318 of NISEP funding was spent, any underspend will be added to the total next year. This delivered approximately 608 GWh of energy saved and £56,345,455 of gross consumer benefit.

**Table 1: NISEP in numbers**

- £6.2 m was spent on NISEP schemes overall.
- total lifetime energy savings were a substantial 607.77 GWh.
- 123,457 tonnes of carbon savings.
- £56,345,455 gross consumer benefit savings.
- £471,448 was earned in incentives for over achievement on energy saving targets.

We work regularly with DETI on energy efficiency issues. DETI's Strategic Energy Framework made a commitment to examine the potential for an energy efficiency supplier obligation in Northern Ireland. This means that companies that supply or distribute/import energy could be obliged by Government to achieve a certain level of energy savings within a given year. The new EU Energy Efficiency Directive, currently published in draft form, seeks to promote increased



levels of energy efficiency in Member States. As well as being involved in a cross-departmental steering group, we have assisted DETI with an initial scoping exercise on energy efficiency provision. DETI will consult on the provision of energy efficiency in the forthcoming Energy Bill.

### **Supporting renewable development**

We are committed, wherever appropriate, to playing our role in increasing the proportion of electricity generated from renewable sources in Northern Ireland.

We have a statutory responsibility for the Northern Ireland Renewables Obligation (NIRO). The NIRO is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources. Suppliers can meet their obligation by either presenting ROCs or paying into a buyout fund. ROCs are issued directly to renewable generators.

An additional 131 generating stations in Northern Ireland were accredited by us to claim ROCs in 2010-11. This is the highest ever number of additional

accreditations awarded by us in one year. The total number of Northern Ireland ROCs issued for the year was 787,050.

More widely, the Coalition Government set out its proposals for the reform of the Electricity Market in Great Britain in a White Paper published in July 2011. Key aspects of the White Paper, such as mechanisms for incentivising renewable electricity generation, has implications for Northern Ireland. We have worked with DETI to provide evidence to the Department of Energy and Climate Change (DECC) on the impact the GB proposals would have in Northern Ireland and to provide input in to how the Renewables Obligation in Northern Ireland would be affected.

DETI subsequently announced, in May 2012, that the NIRO will be replaced by a new incentive mechanism feed-in-tariff with a contracts for differences system.

### **The Climate Change Levy Exemption Scheme**

We continue to manage and administer the Climate Change Levy (CCL) scheme, issuing Levy Exemption Certificates (LECs) to accredited generators in Northern Ireland and the Republic of Ireland.

The CCL is a tax on energy used by businesses. In relation to electricity, the tax requires suppliers to charge commercial consumers an extra £4.85 per MWh in 2011-12. Electricity produced from designated renewable and good quality combined heat and power (CHP) sources are exempt from the CCL.

During the year 2011-12 we continued to issue LECs in line with updated rules. We also published updated guidelines for generators wishing to participate in the schemes. Our CCL auditing procedures also improved with 12 generator audits being completed during the year. The scheme has continued to operate effectively with more than a 100% increase in generator applications.

Overall, the scheme promoted renewable generation and good quality CHP generation in Northern Ireland.

### **Providing fuel mix information to consumers**

Electricity suppliers are required to specify in billing information and promotional materials the contribution of each energy source to the overall fuel mix of the supplier over the previous year. This requirement derives from the EU's IME3 Directive. In addition, suppliers are required to provide information on the environmental impact of their electricity.

In November 2011 the SEM Committee published its decision paper on the methodology for calculating fuel mix disclosure. Additionally, we published our IME3 decision paper, which proposed licence modifications in relation to fuel mix disclosure. In July 2011 we published fuel mix calculations for the year 2010, for all suppliers on the island of Ireland, in an easily comparable format.

Consumers are now better able to understand and verify the environmental impact of their electricity consumption.



# 9. Effective and Efficient Regulator



## At a glance

- **We completed a mid-term review of our corporate strategy 2009-14.**
- **We achieved or partly achieved 92% of our Forward Work Plan (FWP) targets and accommodated unanticipated workstreams while further reducing our budget.**
- **Our cross-utility work advanced significantly with the publication of our response to the financing networks consultation and our network price control consultation paper.**
- **Our processing of bills for goods and services met and sometimes exceeded standards.**

The continuing impact of the economic downturn on public sector resources remained a key context for our work during 2011-12. Our operating budget continued to reduce and we remain committed to expenditure restraint. We completed a mid-term review of our corporate strategy. Significant progress was made on our cross-utility workstream and we published a major consultation paper on network price controls.

## Making the best use of our resources

### Our finances

As a non-ministerial government department, our funds are voted by the Northern Ireland Assembly. We account for these annually in our statutory accounts which can be obtained from the Stationery Office or from our website ([www.uregni.gov.uk](http://www.uregni.gov.uk)).

A commentary on our financial statement for the year ended 31 March 2012 is included at Appendix 1. Table 2 below provides an overview of the key figures. Most of our costs are recouped from annual fees paid by electricity, gas and water licensees.

**Table 2: Overview of financial position**

Expenditure	Actual	£m
Operating costs (gross)		6,914,000
Licence fees collected <sup>1</sup>		6,530,000
Operating costs (net)		<b>384,000</b>

We are committed to the prompt payment of bills for goods and services received. During 2011-12, the standard was payment of 95% undisputed invoices within 10 days. We achieved this each month during the year and reached a 100% standard during three specific months.

### Developing our staff

We aim to be an employer of choice. Our staff group is professionally diverse and mostly directly recruited, but we also have a small group of secondees from DETI and the Department of Finance and Personnel (DFP).

A Human Resource (HR) strategy was developed and outlines our approach to enhancing HR management. The strategy has been developed in terms of five



key themes: recruitment and retention, pay and reward, organisation and people development, equal opportunities and performance and talent management. It reflects our mission, vision and values; the corporate strategy and FWP, NI, UK and European employment legislation and best practice in HR.

We recognise the value of investing in, and supporting the development of our staff. This has included providing in-house training (such as on economic regulation), supporting staff on work-related higher education and enabling staff to access other learning and development opportunities.

Our absence rate is 4.02% (nine days per employee). This rate is in line with that of the public sector (CIPD Annual Survey Report, 2011). Excluding long-term absence, the absence rate was 2.34%.

### Performing effectively as a regulator

#### Mid-term review of our Corporate Strategy 2009-14

We completed a mid-term review of our Corporate Strategy 2009-14.

The review adopted a more deliberative approach to consultation. We organised a workshop in June 2011, attended by over 30 representatives from various stakeholder organisations. The focus of the workshop was to engage stakeholders on a draft discussion paper setting out our initial thinking on the review. Stakeholder comments were used to inform the publication of the discussion paper which was subsequently published as part of a formal consultation process. We considered all of the consultation comments, and published our response in October 2011. Overall, stakeholders were broadly supportive of existing corporate strategy themes and we took forward several ideas through our FWP 2012-13.

#### Forward Work Plan 2011-12

Our FWP sets out the key projects that we intend to undertake each year. Appendix 2 sets out all of the FWP projects and how we performed against each one. Overall, we achieved or partially achieved 92% of the time-limited tasks listed to be completed within the 2010-11 year.

#### Promoting best regulatory practice – our cross-utility projects

We recognise that our unique position as a multi-utility regulator provides an opportunity for learning and the sharing of best practice. For this reason we have advanced the development of several cross-utility projects, and this is supported by advice from non-executive directors on a Cross-Utility Board Advisory Group.

Our cross-utility projects advanced significantly during the year. Following a conference early in 2011, we subsequently published our response on the issue of financing networks. While our overall conclusions were to retain our existing regulatory approach in this area, we committed to keeping this matter under review.

We also developed a major consultation paper on network price controls. A discussion paper on this issue was published in September 2011. As well as facilitating an information briefing in November 2011, we also undertook a series of meetings with interested stakeholders. Given the scope of the discussion paper, which will set out our policy on how we conduct all aspects of network price controls, we have been carefully considering the range of views expressed during the consultation. We expect to publish our decision on network price controls later in 2012.



## Corporate governance

### Governance and audit

DFP appoints the Chairman and members of our board. Two board members, Christopher Le Fevre and Etain Doyle, stepped down from the board at the end of September 2011. The Chief Executive, Shane Lynch, is the organisation's Accounting Officer.

We are accountable to the Northern Ireland Assembly and produce an Annual Report, which DETI lays before the Assembly. Our decisions are subject to external review by, for example, the CC and the Courts. Assembly Committees may ask for evidence to be given on matters relevant to their work.

We received an unqualified opinion from the Northern Ireland Audit Office (NIAO) in respect of the 2011-12 accounts.

Our internal audit is outsourced to Capita Consulting (formerly Tribal Helm). Areas tested included creditor payments, expenses and payroll, corporate governance, water licence enforcement, project management arrangements for CAG and the operation of the SEM Committee. We again achieved a 'satisfactory' overall assurance rating.

### Board and board sub-committees

Our board formally met eight times during 2011-12. The board comprised the following non-executive directors: Peter Matthews (Chairman), Jim Oatridge, Alan Rainey, Richard Rodgers, Bill Cargo, Clive Elphick, Philip Johnson, Etain Doyle (until 30 September 2011) and Christopher Le Fevre (until 30 September 2011). Shane Lynch, as Chief Executive, was an ex-officio member of the board.

The board undertook a learning and engagement programme during 2011-12. This consisted of a

planned series of visits to utility assets and meetings with a diverse range of stakeholders. Board members and external guests also provided briefings on a range of topics.

The senior management team continued to meet weekly.

The Audit Committee met four times. Its membership comprises the following non-executive directors: James Oatridge (Chair), Clive Elphick and Richard Rodgers. The committee is supported by members of the executive team attending by invitation. The Northern Ireland Audit Office and the head of internal audit have standing invitations.

The Remuneration Committee met five times. Its membership comprises the following non-executive directors: Christopher Le Fevre (Chair until his term as a board member ended), Bill Cargo (Chair in succession to Mr Le Fevre), Philip Johnson and Alan Rainey. The Chair of the board, Peter Matthews, also attends. The pay of our staff was frozen during 2011-12.

Board Advisory Groups (BAGs) for water, energy (covering electricity and gas) and cross-utility projects meet bi-monthly. Membership comprises non-executive directors (with relevant utility experience) and senior staff working in the utility directorates. They provide a vehicle for detailed technical scrutiny of key policy issues informing the decision making processes at board level.

The SEM Committee meets monthly to take decisions in respect of the exercise of relevant functions of CER or us in relation to a SEM matter on behalf of each regulator. Northern Ireland's current SEM Committee members (as of 31 March 2012), appointed by DETI, are Shane Lynch and Alan Rainey.

### **Information technology and governance**

Our new information governance arrangements are providing a framework for the delivery of secure and efficient information storage and transfer.

We successfully completed the desktop elements of a migration of information technology (IT) services to IT Assist, the NICS managed service provider of IT services. The remaining phases are due for completion in early summer 2012.

### **Freedom of Information**

In 2011-12 we received eight requests under the Freedom of Information Act. Responses to all requests were issued within the statutory period prescribed by the Freedom of Information Act 2000.

Additionally, we also continued to review our procedure for dealing with requests. A staff training day on Freedom of Information and data protection requirements took place in May 2011.

### **Communication with stakeholders and consumers**

We continued to take steps to enhance our communication during 2011-12.

Our stakeholder engagement programme continued to provide opportunities for us to reach out to a range of different organisations. During the last year we initiated new activities to support our stakeholder engagement. For example, in conjunction with the Scouting Association and several utility companies, we supported a pilot project with several scout troops in the Greater Belfast area. The pilot project involved a series of activities to support awareness and understanding of issues such as energy efficiency and water conservation.

Following the conclusion of the pilot programme, an awards ceremony took place in March 2012, with programme participants receiving badges from the Minister for Enterprise, Trade and Investment, Arlene Foster.

We continue to enhance our online communications. In March 2012 we implemented the soft launch of a series of functional improvements designed to enhance the accessibility and usability of our website. This includes the ability for the reader to view documents in sections on-screen, a re-organisation of content on the main pages to improve accessibility and the development of an online glossary. We expect to refine the functional improvements during the rest of 2012.

Evidence of the success of our communications initiatives continues to be demonstrated by consumer research. For instance, a majority of respondents continue to express confidence in our ability to carry out our work.

### **Landbank**

Landbank is the portfolio of land used, or held, for generating purposes and is managed by NIE, under our direction. In addition to a programme of maintenance on the sites, we took further steps towards the development of a number of the main sites for generating purposes.

## Appendix 1 - Financial report in respect of the year ended 31 March 2012

### Central Government financing

£384k was borne by central Government in respect of expenditure on areas not covered by current licences such as management, on behalf of HM Customs and Excise, of the CCL Exemption scheme, the Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) scheme, the Renewables Order (Northern Ireland) 2005 scheme, notional costs and non-cash costs.

### Licences

A breakdown of licence fee income is set out in Table 1 below.

Table 1: Licence fees by utility	Total Licence Fees (£000s)
Electricity	2,894
Gas	1,971
Water	1,228

We also collect fees on behalf of CCNI. These are for work done under the Energy (Northern Ireland) Order 2003 and Water and Sewerage Services (Northern Ireland) Order 2006. The total fees collected were £900,084, of which £199,251 was attributed to electricity, £149,438 to gas and £551,395 to water.

### Accounts

The statement of comprehensive net expenditure shows that salary costs fell slightly from the previous year (£4,252,000 in 2011-12 against £4,351,000 for 2010-11).

The percentage of staff costs to total costs in 2011-12 of 61% is similar to that of 61% in 2010-11.

The Utility Regulator's gross expenditure in pursuit of its objectives as detailed in the statement of operating costs by operating segments (see Table 1) was as follows.

Table 2: Expenditure by segment	2011-12 (£000s)	2010-11 (£000s)
Segment 1 (electricity)	3,385	3,720
Segment 2 (gas)	2,267	1,746
Segment 3 (water)	1,262	1,618

More detailed financial information on costs can be found in our accounts.

The statement of comprehensive net expenditure (the public sector equivalent of an income and expenditure account) and a schedule setting out our financial performance in pursuit of our objectives are set out in Tables 2 and 3. These figures were subject to final audit at the time of publication of this report.

<b>Table 3: Statement of Comprehensive Net Expenditure</b>	<b>2011-12 (£000s)</b>	<b>2010-11 (£000s)</b>
<b>Programme costs</b>		
Staff costs	4,252	4,351
Other (non-staff) costs	2,662	2,733
<b>Total costs</b>	<b>6,914</b>	<b>7,084</b>
Operating income	6,530	6,958
Net operating cost	384	126

<b>Table 4: Costs by objective for the year ended 31 March 2012</b>	<b>2011-12 (£000s)</b>			<b>2010-11 (£000s)</b>		
	<b>Gross</b>	<b>Income</b>	<b>Net</b>	<b>Gross</b>	<b>Income</b>	<b>Net</b>
<b>Segment 1</b> To protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.	3,385	3,331	54	3,720	3,671	49
<b>Segment 2</b> To promote the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland.	2,267	1,971	296	1,746	1,705	41
<b>Segment 3</b> To protect the interests of water and sewerage services, where appropriate by the promotion of effective competition.	1,262	1,228	34	1,618	1,582	36
<b>Total</b>	<b>6,914</b>	<b>6,530</b>	<b>384</b>	<b>7,084</b>	<b>6,958</b>	<b>126</b>

## Appendix 2: Forward Work Plan outcome<sup>1</sup>

1	G	Monopoly Regulation	Cost Reporting	Advance the network implementation of cost reporting and develop model for relevant gas supply companies	Ongoing
2	E	Monopoly Regulation	GSS	Review current codes of practice and Guaranteed Service Standards (GSS) within the NIE Transmission and Distribution price control (RP5) for the electricity sector	Partially achieved
3	G	Monopoly Regulation	GSS	Implement GSS in the gas sector	Partially achieved
4	W	Monopoly Regulation	GSS	Work with stakeholders to develop GSS as appropriate in the water sector	Revised
5	E	Monopoly Regulation	Price Control	Advance the RP5 NIE T&D price control	Partially achieved
6	E	Monopoly Regulation	Price Control	Carry out additional works associated with RP4 NIE T&D price control	Ongoing
7	E/G/W	Monopoly Regulation	Price Control	Complete a review of cross utility price controls	Achieved
8	G	Monopoly Regulation	Price Control	Complete Phoenix Natural Gas (PNG) Distribution price control	Achieved
9	G	Monopoly Regulation	Price Control	Complete Phoenix Supply Limited (PSL) price control	Achieved
10	G	Monopoly Regulation	Price Control	Progress BGE (UK) Transmission price control	Achieved
11	G	Monopoly Regulation	Price Control	Complete Premier Transmission Limited and Belfast Gas Transmission Limited shadow price control	Partially achieved
12	R	Monopoly Regulation	Price Control	Complete NIE Energy Supply (NIEES) price control	Achieved
13	W	Monopoly Regulation	Price Control	Work with stakeholders to progress NI Water Price Control PC13	Achieved
14	W	Monopoly Regulation	Price Control	Work with CCNI and NI Water to consult and incorporate customer views to inform PC13	Achieved
15	G	Monopoly Regulation	Regulation Structure	Analyse need for firmus supply price control in ten towns area	Achieved
16	W	Monopoly Regulation	Social and Environmental Guidance	Work with statutory stakeholders to inform the development of the Minister for Regional Development's social and environmental guidance for PC13	Achieved
17	E	Monopoly Regulation	Tariff Review	Complete annual tariff reviews	Achieved

<sup>1</sup> See 2011-12 FWP at [www.uregni.gov.uk/publications/2011\\_12\\_forward\\_work\\_plan\\_published/](http://www.uregni.gov.uk/publications/2011_12_forward_work_plan_published/).

18	G	Monopoly Regulation	Tariff Review	Complete tariff reviews for PSL	Achieved
19	R/E	Monopoly Regulation	Tariff Review	Complete tariff reviews for NIEES	Achieved
20	E	Monopoly Regulation	Tariffs	Implementing new Supplier Transmission Use of System (STUoS) arrangements in System Operator of Northern Ireland (SONI) to make tariffs more cost reflective	Achieved
21	E	Sustainability	Demand Side Response	Finalise Demand Response Strategy	Achieved
22	W	Sustainability	Developing Strategic Direction	Develop approaches to assessing sustainability impacts in the economic regulation of NI Water	Partially achieved
23	S	Sustainability	Energy Efficiency	Work with the Department of Enterprise, Trade and Investment and other stakeholders to further develop renewable support mechanisms and improve energy efficiency	Achieved
24	G	Sustainability	Gas Storage	Complete work on gas storage regulatory framework and manage any licence applications	Achieved
25	S	Sustainability	IME3	Develop an enduring solution for fuel mix disclosure taking into account the requirements of IME3 and Renewable Energy Directive	Achieved
26	E	Sustainability	Licences	Address the licensing of new generation in a timely manner	Achieved
27	E	Sustainability	Networks	Assess the impact of Network development plans to meet strategic requirements for 2020/25	Partially achieved
28	S	Sustainability	Renewables	Continue to operate effective running of Renewable Energy Obligation, Climate Change Levy Exemption Certificate Scheme and Renewable Energy Guarantees of Origin Scheme	Project planned for 2012-13
29	S/E	Sustainability	RES Directive	Implement changes arising from the Renewable Energy Directive	Achieved
30	E	Sustainability	Security of Supply	Implementation of Fuel Security Code requirements in NI and implementation of arrangements for all island security of supply	Partially achieved
31	G	Sustainability	Security of Supply	Implement European Security of Supply regulation	Achieved

32	S	Sustainability	Sustainable Energy Program	Work with DETI in relation to energy efficiency, in particular monitor and review (as necessary) the NISEP	Achieved
33	W	Sustainability	Water Efficiency	Consider NI Water's approach to Water Efficiency and synergies with reducing energy usage	Partially achieved
34	W	Sustainability	Water Resource Management Plan	Consider NI Water's Resource Management Plan and review Economic Level of Leakage giving consideration to sustainability issues	Achieved
35	S	Sustainability	Statutory Duties	Work with DETI regarding the priority given to sustainability in our statutory duties and on the development of renewable heat as required	Partially achieved
36	R	Protection	Annual Statement	Implement Third Package required Annual Statement	Partially achieved
37	R	Protection	Billing Information and Clarity of Bills	Undertake research into optimal content and format of customer's bills, ensuring Third Package requirements in this area are implemented.	Partially achieved
38	R	Protection	Code of Practice	Produce and implement a code of practice on debt for energy suppliers	Partially achieved
39	R	Protection	Codes of Practice	Standardising licence-required Code of Practice arrangements across gas and electricity	Project planned for 2012-13
40	R	Protection	6 months review	To complete review of onset of domestic energy competition and implement findings	Achieved
41	R	Protection	Critical Care	Engage with NIE plc and Health Trusts to assess the scope for addressing the needs of vulnerable customers through critical care procedures	Achieved
42	R	Protection	Fuel Poverty	Review any implications for the Utility Regulator arising from the Department of Social Development's Fuel Poverty Review	Achieved
43	R	Protection	GSS	Identify scope for improving GSS content in gas and electricity and standardising best practice	Project planned for 2012-13
44	R	Protection	IME3	Cover rest of consumer related aspects of Third Package that have not been considered in other specific projects	Partially achieved

45	W	Protection	Monitor performance via AIR	Produce Annual Cost and Performance report for NI Water	Achieved
46	R	Protection	Non-switchers	Identify and establish protection requirements for non-switching customers.	Project planned for 2012-13
47	W	Protection	Public Private Partnership Contracts	Monitor the performance and efficiency of Public Private Partnership contracts relating to water and sewerage services	Partially achieved
48	W	Protection	Scheme of Charges	Review and approve NI Water Scheme of Charges (regulated tariffs and other charges) for 2012-13	Achieved
49	E	Protection	Smart Metering	Advance Smart Metering development, to include a Trial for Vulnerable Customers and Interim Report	Partially achieved
50	R	Protection	Social Action Plan	Review of Social Action Plan	Revised
51	R	Protection	Supplier Marketing	Develop and implement customer protection arrangements in relation to marketing by suppliers	Partially achieved.
52	W	Protection	Targeting Investment	Identify and issue additional data requirements to enhance the targeting of capital maintenance works	Partially achieved
53	R	Protection	Vulnerable Customers	Implement any decisions coming from IME3 to protect vulnerable customers in the competitive supply environment	Partially achieved
54	E	Competition	Ancillary services and Other System Charges	Further development of Harmonised Ancillary Services and Other System Charges arrangements	Achieved
55	R	Competition	Customer Choice	Implement Third Package policies to ensure customers clarity in their choice of energy supplier (i.e. communications, branding)	Partially achieved
56	E	Competition	Directed Contracts	Complete Directed Contracts setting in conjunction with the CER	Achieved
57	E	Competition	Dispatch and scheduling	Monitor and report on divergence of market schedule from dispatch	Achieved
58	E	Competition	Dispatch and scheduling	Advice in implementation of legislation for harmonisation of Priority of Dispatch	Achieved
59	R	Competition	Electricity Systems	Implement Stage 3 of the ES project which will implement long-term electricity switching processes and enhance competition	Achieved



60	E	Competition	Market Development	Implement Trading and Settlement Code and system modification for treatment of losses, dispatch and scheduling, global aggregation and medium term review of capacity payment mechanism	Partially achieved
61	E	Competition	Market Liquidity	Implement Decisions regarding improvement of contract market liquidity and the migration of the exercise of market power – in conjunction with the CER.	Achieved
62	G	Competition	Metering	Analyse appropriate location of meter reading duties and begin work on Smart Metering	Achieved
63	R	Competition	Policy Position	Complete a review of policy position on regulatory approach to supply competition and implement any actions arising (alongside findings on 6 months review)	Achieved
64	E	Competition	PPB	Implement any decisions to cancel Generating Unit Agreement(s) and review options for the future of the PPB business	Achieved
65	E	Competition	Regional Integration	Delivery of developments required for compliance with congestion management guidelines and European policy re regional integration	Partially achieved
66	R/G/E	Competition	Supplier Entry	Ensure that all necessary preparations are achieved to manage new supplier entry and ensure customer protection	Achieved
67	G	Harmonisation	CAG	Finalise business rules of Common Arrangements for Gas (CAG) code	Revised
68	G	Harmonisation	CAG	Agree Transmission System Operator (TSO) contractual arrangements for single CAG operation	Revised
69	G	Harmonisation	CAG	Agree CAG harmonised tariff structures	Revised
70	E	Harmonisation	CPM	Carry out the annual calculation of the Capacity Pot for 2012	Achieved
71	E	Harmonisation	CPM	Decision and implementation of review processes for the CPM Medium Term Review	Achieved

72	R	Harmonisation	Harmonisation	Progress harmonised systems via Harmonisation Working Group and Harmonisation Steering Group ongoing issues. Ensure smooth roll-out of Stage 3 go live in the context of all-island supply processes	Achieved
73	E	Harmonisation	Locational Signals	Develop and implement enduring solution for treatment of losses	Partially achieved
74	E	Harmonisation	Locational Signals	Develop and implement enduring solution for Generator Transmission Use of System Charging	Partially achieved
75	E	Harmonisation	Market Monitoring	Monitor and Investigate the Single Electricity Market (SEM) to mitigate the potential abuse of market power. Enforce the bidding code of practice	Achieved
76	R	Harmonisation	Work with CER	To scope with CER on future work requirements in relation to common regulatory approaches	Project planned for 2012-13
77	G/E	Regulatory Framework	ACER	Ensure appropriate access to the Agency for the Co-operation of Energy Regulators (ACER) and input into European energy policy including network codes as they are drafted	Achieved
78	G	Regulatory Framework	Connections	Connection Policy. Analyse potential for single NI connection policy at distribution level	Project planned for 2012-13
79	G	Regulatory Framework	Energy Bill	Implement all relevant aspects of Energy Bill	Achieved
80	W	Regulatory Framework	Executive Consultation	Contribute and inform any proposals to the Executive to consult in relation to NI Water governance or funding	Achieved
81	G/E/W	Regulatory Framework	Financing Networks	Produce a position paper on Financing Networks	Achieved
82	R/G/E/ Legal	Regulatory Framework	IME3	Implementation of IME3 (Third Energy Package) to include certification process regarding to unbundling, licence modification etc, as appropriate following DETI's legislation	Partially achieved
83	R	Regulatory Framework	Market Monitoring Long Term	Establish retail market monitoring data set. Consider proposals coming out of European Regulators' Group for Electricity and Gas (ERGEG) work. Consult and implement system of Retail Market Monitoring.	Achieved

84	R	Regulatory Framework	Market Monitoring Short Term	To design and implement a short term retail market monitoring, using quarterly reports on switching, prices and market activity.	Achieved
85	E	Regulatory Framework	Networks	Review the implications of both private networks and contestability of connections within electricity networks	Revised
86	E	Regulatory Framework	Networks	Completion of licence modifications required for acquisition of NIE T&D	Partially achieved
87	CA	Organisational	Corporate Strategy	Carry out mid-term review of Corporate Strategy 2009-14	Achieved
88	Water	Regulatory Framework	Freeze/Thaw Incident	Monitoring of delivery of the freeze/thaw recovery action plan	Achieved
89	Water	Regulatory framework	Price Control PC15	Development of approach and timeline for PC15	Partially achieved

## Appendix 3 – Abbreviations

<b>Abv</b>	<b>Definition</b>	<b>Abv</b>	<b>Definition</b>
<b>AIR</b>	Annual Information Return	<b>NIE T&amp;D</b>	Northern Ireland Electricity Transmission and Distribution
<b>BAG</b>	Board Advisory Group	<b>NIRO</b>	Northern Ireland Renewables Obligation
<b>BGE</b>	Bord Gais Eireann	<b>NIROCs</b>	Northern Ireland Renewables Obligation Certificates
<b>CAG</b>	Common Arrangements for Gas	<b>NISEP</b>	Northern Ireland Sustainable Energy Programme
<b>CCL</b>	Climate Change Levy	<b>NI Water</b>	Northern Ireland Water
<b>CC</b>	Competition Commission	<b>OFGEM</b>	Office of the Gas and Electricity Markets
<b>CCNI</b>	Consumer Council for Northern Ireland	<b>OPA</b>	Overall Performance Assessment
<b>CER</b>	Commission for Energy Regulation	<b>PC10</b>	Price Control for NI Water relating to 2010 - 2013
<b>CFD</b>	Contracts For Difference	<b>PC13</b>	Price Control for NI Water relating to 2013 - 2018
<b>CHP</b>	Combined Heat and Power	<b>PNGL</b>	Phoenix Natural Gas Limited
<b>CPM</b>	Capacity Payment Mechanism	<b>PPAs</b>	Power Procurement Agreements
<b>DECC</b>	Department of Energy and Climate Change	<b>PPB</b>	Power Procurement Business
<b>DETI</b>	Department for Enterprise Trade and Investment	<b>PSL</b>	Phoenix Supply Limited
<b>DFP</b>	Department of Finance and Personnel	<b>RAV</b>	Regulatory asset value
<b>DRD</b>	Department for Regional Development	<b>RIIO</b>	Revenues, Incentives, Innovation and Outputs
<b>DS3</b>	Delivering a secure and sustainable electricity system	<b>ROCs</b>	Renewables Obligation Certificates
<b>EC</b>	European Commission	<b>RP5</b>	Regulatory Period 5 (NIE T&D price control for 2012 - 2017)
<b>ES</b>	Enduring Solution	<b>SEM</b>	Single Electricity Market
<b>ESB</b>	Electricity Supply Board	<b>SEMO</b>	Single Electricity Market Operator
<b>EU</b>	European Union	<b>SONI</b>	System Operator Northern Ireland
<b>FWP</b>	Forward work plan	<b>TSOs</b>	Transmission System Operators
<b>GMOG</b>	Gas Market Opening Group		
<b>GSS</b>	Guaranteed Standards of Service		
<b>GUAs</b>	Generating Unit Agreements		
<b>HR</b>	Human Resources		
<b>I &amp; C</b>	Industrial and Commercial		
<b>IME3</b>	Internal Market in Energy 3 - Third European Package of Directives and regulations on market liberalisation in energy		
<b>IT</b>	Information Technology		
<b>JGCS</b>	Joint Gas Capacity Statement		
<b>LECS</b>	Levy Exemption Certificates		
<b>MMU</b>	Market Monitoring Unit		
<b>MOU</b>	Memorandum of Understanding		
<b>NICS</b>	Northern Ireland Civil Service		
<b>NIE</b>	Northern Ireland Electricity		

## Appendix 3 – Glossary

<b>Term</b>	<b>Definition</b>
<b>EU Third Energy Package of directives (IME3)</b>	The Third Package, also called the Third Energy Package or IME3, is the EU's latest group of legislative measures to further liberalise the gas and electricity markets. It concentrates on overall policy terms as it takes the twin track of developing internal markets, competition etc, but also adds new significant customer protection and information aspects.
<b>Enduring solution</b>	The enduring solution will provide the IT systems and processes through NIE as the common market services provider in Northern Ireland.
<b>Common arrangements for gas</b>	CAG is a project to establish an all-island common arrangements for gas, whereby all stakeholders can buy, sell, transport, operate, develop and plan the natural gas market north and south effectively on an all-island basis.
<b>Generation unit agreement or power purchase agreements</b>	Power purchase agreements are long-term contracts between two parties, one who generates electricity for the purpose of sale and another one who buys the electricity.
<b>Renewable Energy Directive</b>	The Renewable Energy Directive is a European Directive, published in 2009, that promotes the use of energy from renewable sources. It requires Member States to produce a pre-agreed proportion of energy consumption from renewable sources such that the EU as a whole shall obtain at least 20% of total energy from renewables by 2020.
<b>Unbundling</b>	One of the most important proposals of the Third Energy Package is 'unbundling' the energy assets. This means to separate the operation of gas pipelines and electricity networks from the business of providing gas or generating power.
<b>Price controls</b>	The price controls are one of the tools that regulatory authorities use to protect customers. The main objectives of a price control are: to ensure that monopolies do not abuse their position (i.e. an unregulated monopoly might charge too high prices and/or provide too low level of quality, resulting in poor value for money for consumers) and provide companies with a future level of revenue and appropriate incentives to meet their statutory duties and licence obligations.
<b>Annual Information Return</b>	Information provided, on an annual basis, by NI Water to enable us to monitor the delivery of the undertakings contained in their business plan.

<b>Term</b>	<b>Definition</b>
<b>Overall performance assessment</b>	A tool to help monitor and compare with England and Wales the level of service that NI Water provides to its consumers.
<b>Gas market opening group</b>	A forum set up originally to deal with issues relating to market opening and competition in the Greater Belfast gas network. The forum now also covers the same issues for the Ten Towns gas network. The main GMOG members currently include distribution system operators, suppliers, CCNI, DETI and the Utility Regulator.
<b>Joint gas capacity statement</b>	The JGCS assesses the ability of the gas transmission network in NI and the RoI to meet potential demand and supply scenarios over the ensuing 10 years. It is produced every year and assists the transmission system operators and the regulators to identify any issues that need to be addressed. This helps make sure that the network is robust enough to cope with future requirements.
<b>Retail market</b>	The term retail is used to refer to the supply side of the electricity and gas markets.
<b>Harmonisation</b>	Making the working arrangements, processes, or rules in NI and RoI similar or the same.
<b>Electricity market reform</b>	The UK government's review of the UK electricity market.
<b>Capacity payment mechanism</b>	This is a method of remunerating generators for providing their generation capacity to the market.
<b>Demand side vision</b>	This was a joint project with CER looking at how the demand side of the market can help in meeting electricity demands. Demand side being consumers. Supply side being generators.
<b>Regulatory asset value</b>	Also known as regulatory asset base. This is a record of the assets of a regulated business. For example NIE's RAB/RAV consists of the total value of its lines, cables, towers, substations, transformers, meters etc.

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